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<p>Tiivistelmä-Referat-Abstract</p> <p>Venture capital has become an important instrument of financing for start-up projects, specifically in highly technological and innovative fields, that face significant difficulties in attracting conventional financing. These projects are subject to high market uncertainty, numerous risks, high start-up costs, and potentially generate higher rewards than the average. Moreover, the contribution of venture-backed companies to overall economic growth has been largely acknowledged both in practice and in theory.</p> <p>The efficiency of venture capital investments is attributed to elaborate contractual agreements. Contractual provisions are used as instruments that aim to minimize the impact of uncertainty and potential market risks. The complexity of venture capital contracting is based on the simultaneous use of multiple contractual provisions, in far greater extent than in traditional project contracting. Different contractual provisions are seen as compliments, not substitutes of each other.</p> <p>The efficiency of individual contractual provisions has been extensively analysed in economic literature on venture capital contracting. Nevertheless, the analysis of the interaction between contractual provisions has been largely ignored.</p> <p>Fluck, Garrison and Myers (2006) have analysed the interaction between contractual provisions in the context of staged financing and syndication of later-stages of investment. Their main argument is that staged financing alleviates the effort provision problem of the entrepreneur by trading it off for the hold up problem. They find that the costs of staged financing and the hold up problem may be so high that they actually exceed the benefits. The syndication of later-stage financing is proposed as the contractual provision that potentially alleviates the hold up problem induced by staged financing.</p> <p>The first objective of this Master's Thesis was to review the efficiency of staged financing and syndication of later-stage financing as contractual provisions. The second objective was to analyze the argument that staged financing induces a hold up problem, and that syndication of later-stage financing alleviates this hold up problem.</p> <p>The overall efficiency of staged financing and syndication was confirmed. Plus, their status as potent efficiency-enhancing instruments in venture capital contracts was reaffirmed. In a setting of staged financing, a hold up problem was induced by a venture capitalist with monopoly power, who maximized returns by diluting the entrepreneur's share. The anticipation of hold up damaged the entrepreneur's incentives: effort provision and project value decreased. The commitment to syndicate the second stage of financing aligned the venture capitalist's and the entrepreneur's incentives, alleviated the hold up problem induced by staged financing, and assured efficient continuation of the project.</p>			
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